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Crop Insurance Update

United States Department of Agriculture

Federal Crop Insurance Corporation

January 1986

DEPOSITORY

Final Standards for Master Marketer Contract

The Federal Crop Insurance Corporation (FCIC) will not require Master Marketers to carry errors and omissions insurance or to be licensed to conduct business as an insurance agency in their state of residence .

Licensing of Master Marketer companies will not be required, according to the statement in the latest Proposed Standards for Approval of the Agency Sales and Service Contract, because "FCIC possesses the means to assure that a high level of performance and integrity on the part of the Company lies within the Agency Sales and Service Agreement and attendant operational standards and financial requirements."

FCIC verified the claim, made in responses to its proposals, that errors and omissions insurance was unavailable and exorbitantly priced in some places.

"Means to recover such payments made through error on the part of the contractor or its representatives," according to the Federal Register statement, "lie in the provisions of the contract itself and are reinforced through the financial statement of the contractor."

Other changes, outlined in earlier versions of the Proposed Standards, have not been rescinded.

Contractor's representatives (agents) are still required to hold current state insurance licenses, which authorize them to sell in any one of the following lines:

- multiple-peril crop insurance,
- crop-hail insurance,
- property insurance,
- casualty insurance, or
- liability insurance,

in each state where the representatives sell FCIC crop insurance.

FCIC must certify these representatives in each crop for which they sell or service insurance.

FCIC defines "certification" as formal training and successful completion of testing on new crop programs and policy changes, corporation procedures, sales and servicing techniques, and other items.

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Interim Contract Outlines Compensation for 1986

Beginning with the interim Agency Sales and Services Contract, Master Marketers may retain the 3.4-percent compensation for servicing a policy, even if the insured fails to pay the premium in full.

The Federal Crop Insurance Corporation (FCIC) is compensating Master Marketers 15 percent of base premium for all policies sold and serviced. The 3.4 percent, subject to acreage report revisions, is a part of the 15 percent.

The base premium includes the farmer-paid premium plus subsidy, after adjustments for experience and for hail and fire credit.

The 15-percent compensation rate will be paid through a period of 12 months past debt termination date.

In the 1985 contract Master Marketers were paid the 3.4 percent upon the processing of the acreage report.

The contractor may now retain the 3.4 percent payment. In past years the contractor repaid any money received if the farmer failed to pay his premium in full.

The contractor will not be entitled to money collected more than 12 months after the debt termination date.

FCIC will also charge the contractor $50.00 for each acreage report on each crop that the Corporation must obtain because the contractor or its representatives failed to comply with contract regulations.

FCIC and contractor accounts will be paid twice monthly.

The interim contract went into effect at the beginning of October and will expire when the 1986 Agency Sales and Service Contract is executed. □

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Agency Sales and Service Contract in Review

The following items in the 1986 Agency Sales and Service contract are unchanged from last year's contract:

Master Marketers must:

- provide training for their representatives;
- review field performance for compliance with FCIC procedures;
- provide liaison with FCIC's field operations offices; and
- provide lists of contract representatives authorized to sell and service crop insurance, of the contractor's officers and directors, and of commercial agencies affiliated with the contractor.

Contractor representatives are responsible for selling and servicing crop insurance, which includes:

- soliciting applications and securing acreage reports on time;
- advising applicants on details of coverage, reporting, forms, and deadlines;
- accepting notices of crop damage and cancellations, premium payments, assignments of indemnities, and transfers of right to indemnity;
- assisting insureds in reporting claims;
- preparing and reviewing documents for entry into FCIC's data processing system and resolving document error.

At least 80 percent of the documents that Master Marketers submit to FCIC's data processing offices must be accurate and complete enough to process.

The documents must be submitted to FCIC within 30 days of the date they are required from the insured. When documents are suspended because of errors, errors must be resolved and documents resubmitted within 30 days.

Formal training for representatives must consist of at least 20 hours by FCIC-trained and -accredited instructors in areas specified by the Corporation.

This training is separate from the 20-hour Agent Certification Training (ACT) and program orientation required of representatives in their first year of employment before they can sell or service Federal crop insurance policies.

All records, files, and information on insureds that are maintained by the contractor are FCIC property.

The contractor's representatives must keep accurate records in local service offices. Contractors must respond within 15 days to FCIC inquiries on information in these files.

FCIC is responsible for initial and subsequent billing of crop insurance premiums.

The contractors and their representatives may make their own collection efforts. An insured may pay the contractor or its representative, but all amounts must be promptly sent to FCIC.

Cash payments should be converted to bank obligations, and collections should be sent daily to FCIC. If a representative fails to do so, FCIC will charge interest and may bring action, including termination of the contract with the Master Marketer.

FCIC will indemnify the contractor for the costs (including attorney's fees) of errors and omissions caused by FCIC, if the contractor or its representatives are sued. FCIC will not indemnify contractors for errors and omissions that the contractor caused or allowed to be caused.

The contractor must notify FCIC immediately and must secure legal counsel for any civil action brought against it. FCIC may participate in any action on behalf of the contractor.

The contractor must use all good-faith defenses available to it or those FCIC directs it to use, and it must not settle any action without FCIC's consent.

The contractor must not make material statements or admissions without FCIC's approval nor name FCIC as a party in any actions for which it plans to ask FCIC for an indemnity.

The contractor will indemnify FCIC for the costs (including attorney's fees) of errors and omissions by the contractor for which FCIC is liable under its insurance policy, except to the extent that the Corporation caused the error or omission. FCIC will determine its liability under this clause and notify the contractor when indemnification is due.

Only one **transfer** of an insured's policy per crop year is permitted between Master Marketers, and it must be authorized by the insured and approved by FCIC.

The receiving contractor must provide service on the policies transferred.

The contractor responsible for servicing the policy on the cancellation date is entitled to any compensation.

The contract may be **terminated** at any time by either party, with

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APH Records Required Within Three Months of Cancellation

The Federal Crop Insurance Corporation (FCIC) Board of Directors has modified its positions on records required for the Actual Production History (APH) program and on proposed changes in unit definition after two days of public comment from representatives of the crop insurance industry.

Presenting comments were representatives of the Crop Hail Insurance Actuarial Association, the National Crop Insurance Association, the American Association of Crop Insurers, the National Association of Crop Insurance Agents, and the Master Marketing Association of America, the Ad Hoc Industry Committee, the Crop Insurance Research Bureau, and the Independent Insurance Agents of America.

Also present with statements were representatives of private insurance companies and independent agents. The National Wheat Growers Association and the American Bankers Association also sent representatives.

The Board postponed consideration of any unit change until after February 1, 1986, to allow further information to be gathered on the issue.

The Board extended by nine months the time insured farmers are allowed for submitting annual production records before FCIC sends notification of cancellation.

These records are the evidence of production that underwriters will use to establish future yield guarantees under the APH program.

"This contract will be canceled," according to the new regulation, "if you do not furnish to us, on or before 90 days prior to the cancellation date of the next [crop] year, satisfactory records of production for the previous year.

"Records of production are the heart and soul of a yield protection program of insurance," according to the statement issued by the Board on the decisions.

"There is no logical alternative to requiring records of production if such a program is to succeed over an extended period of time.

"The APH concept, linking records to guarantees, is clearly preferable to any extension of the area coverage concept under any disguise," according to the statement.

The proposal that was rescinded would have defined the unit as all production in one county in which the insured held a 100 percent share. The provisions of the 1985 crop year will remain in effect until the Board can evaluate the studies on the possible effects from a change in unit definition. The hearing, held on September 4 and 5 in Washington, D. C., was designed to allow industry representatives to comment on the proposed changes. □

For the Record

The following quotations are from the hearing on the issues of units and the Actual Production History (APH) program, presented before the FCIC Board of Directors, September 4 and 5, 1985.

James R. Dawson, Chairman, Crop Hail Insurance Association of America (CHIAA):

- **UNIT** is considered by many to be the four-letter word of crop insurance.
- We are in the midst of an experiment in using actual yields. There is no simple formula or system for setting guarantees using actual yields. Given time we can make the system work.
- CHIAA is not opposed to modifying the unit definition. Change is probably warranted, particularly to reduce the number of small units....[but] we must be aware of how a change will impact the operation of APH.
- CHIAA will commit its resources to improving the unit structure. Our staff, our ADP resources, and our will can contribute to effecting the best unit arrangement possible if we do so at the right time.

John Joyce, chairman of the the American Association of Crop Insurers (AACI):

- The Multiple Peril Crop Insurance Program is by far the most complex plan of insurance that most multi-line agents have ever encountered.
- While we admit that we do not know what the right or best unit definition is, we do know that farmers have strong objections to excessive consolidation of insurance units. We also know that farmers have a very good memory of this "four-letter" issue.
- We also recommend that this [APH] experiment be expanded to allow the risk-bearing private companies to use their time-tested underwriting capabilities to verify yields on a small-scale test basis, subject to spot checking by FCIC.
- The Multiple Peril Crop Insurance Program has made progress and is a much better product today than when the 1980 Act became law. The heavy involvement of the private sector and its expertise in marketing has also been a

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For the Record

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key ingredient to the growth that has occurred during the past five years.

O. V. Tomlinson, First Vice President, National Crop Insurance Association (NCIA):

- The very best job may have been done in selling the policy to the insured, but complete understanding of what was purchased is quite often not realized until a claim is being settled. I'm sure many of you have experienced similar surprises with your personal auto, health, or homeowners coverage!....Having to significantly change the story from this year to next....can't help but adversely affect participation and credibility.

- By no means are we opposed to change, but let's make sure that "it is broke before we try to fix it."...Earlier testimony indicates that the number of units has in fact decreased and the average size per unit has increased in 1985, so maybe we are doing something right. And the incentive for separate units based on acceptable APH records being provided should continue to yield positive results.

Mike Felt, spokesman for the Ad Hoc Industry Committee representing a coalition of CHIAA, NCIA, and AACI:

- We suggest caution in making new changes before the results of changes already made to increase the integrity and actuarial soundness of the program have had the opportunity to work....at the present time the 1985 crop year shows encouraging prospects to be a very solid black-ink year.

Loran J. Schultz, Manager, Omaha All-Risk Insurance Services, Des Moines, IA:

- The present unit structure and current APH program has reduced the number of units substantially. Any further reduction of units will make the program unmarketable.

- Farmers need farm unit protection based on Actual Production Records. This program is working and needs additional time to work without further change.

B. A. MacDonald, MacDonald Insurance Agency, Inc., Scranton, Iowa:

- The consensus [of local farmers seems to be] that, although the unit system is somewhat cumbersome, it should be continued. It allows for each farm to be insured on its own merit, if the farmer is willing to keep separate records.

- Most of the farmers seem to be encouraged by the APH, which gives them credit for their own production history rather than forcing them to use the county average.

Gene Timms, Independent Agent, Timms Farms, Iuka, Ill.:

- ...at least in my area, the coverage bought vs. premium paid on corn and soybeans reached a point where in a total crop failure a farmer collected between 15 and 17 times his premium paid. Our area has suffered three droughts in the last five years, something the previous generation of farmers had never experienced.

- Fortunately, the program worked exactly as it should have, preventing many farmers from going broke. It allowed them to recover their operating capital. It did not give them a profit. Our area was not alone during these numerous droughts.

- The program as it is now is a good product. It is saleable, it allows the high-producing farmer through the APH program to buy more protection while at the same time reducing exposure on the farmer consistently doing a poor job. It will adjust itself actuarially if given time to do so.

Elbert Harp, Chairman, National Farm Coalition:

- Right or wrong, the success of the FCIC program will be judged on the extent of farmer participation as much as its actuarial soundness.

Robert Fulwider, Chairman, Farm Agri-Business Committee, Independent Insurance Agents of America:

- We have strong convictions on this issue. We provide coverage for many farmers fortunate enough to own and manage more than one farm throughout their home states. They should not be penalized for being successful, instead they should be encouraged to continue farming as well as they do.

Leonard D. Johnson, Agent, Keller-Schwentker Agency, Ogallala, Nebraska:

- We believe most producers are willing to accept the fact that some units under the present guidelines are too small for insurance purposes and would be receptive to a **minimum** acreage limitation....The minimum would vary depending upon the acreages of each crop planted and the average-sized farming operation.

- minimum acreage qualification. If the crop is rated properly and average yields are equitable, it would seem to be an identifiable insurance risk.

- Proximity is an element of risk and in other lines of insurance a credit is allowed if risk is less concentrated. In the case of crop insurance, the producer does not necessarily want a reduction in rate (which would be difficult to determine) but instead wants a separate unit. □

Standards

Continued from page one

Unlicensed representatives who are certified for the crops they sell and service and who have earned compensation from FCIC for the 1984 or 1985 crop year will be allowed until July 1, 1986, to secure the required license.

"Through July 31, 1985," according to the Federal Register statement, "587 claims in the total amount of $3,234,493.06 have been filed against FCIC under the provisions of the 'Good Faith Reliance on Misrepresentation' section contained in each crop insurance regulation.

"The amount of $860,448.03 was paid under this provision in FY 1984 alone.

"Although some of these claims are the results of FCIC errors," according to the statement, "the majority of these claims are the direct result of errors by the contractor or the representative.

"It was felt that some way must be found to reduce this outlay of funds and still maintain program credibility with the insured."

The latest Proposed Standards make no specific reference to the amount of reserves a Contractor must maintain.

Agency Sales and Service Contract in Review

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notice to be given by certified mail. Effective date will be 60 days after mailing.

Any breach of contract by the contractor may result in FCIC terminating the contract upon 30 days notice.

FCIC may approve the reassignment of business from a terminated contractor to another contractor. Any business not reassigned by the contract termination date reverts to FCIC.

Instead the Standards require that the financial statement of the Contractor's shows that current assets are sufficient to liquidate current liabilities.

The financial statement must be audited by a Certified Public Accountant. In the absence of such an audit, FCIC would accept a financial statement certified by the the Contractor's chief executive officer and treasurer.

The Proposed Standards also drops the word "contract" and instead uses the word "agreement" throughout the document. □

A contractor may be **suspended** from writing new business, accepting transfers, or servicing policies for violations of the provisions of this contract, with suspension effective until FCIC determines that the contractor has corrected the breach or until the contract is terminated.

A contractor and its representatives have no authority to **waive** any provisions of the policies, procedures, or regulations, or to incur any indebtedness on behalf of FCIC.

The contractor and its representatives will display appropriate **identification**, furnished or approved by FCIC, clearly visible to the general public, identifying themselves as authorized FCIC service agents.

All **publications**, advertising, and performances that make direct reference to FCIC must be furnished by FCIC.

To avoid real or apparent **conflict of interest**, contractors, their representatives, employees, and members of their immediate families may not engage in loss adjustment activities. □

NEWS FROM ALL OVER

IVAN L. McADOO, district director with the Indianapolis Field Operations Office, died in March, less than a month after retiring from FCIC with 18 years of service.

JAMES W. TAYLOR, JR., district director with the Raleigh FOO, died in June with 18 years of service to FCIC.

IRVIN W. BURNS, district director with the Columbia, Mo., FOO, died in July with over 12 years of service to FCIC.

GRACE MATTHEWS, administrative officer with the Raleigh FOO, retired in August with over 35 years of Federal service, all with FCIC.

JEROME C. PRASKA, crop insurance specialist with the Des Moines FOO, also retired in August after 22 years with the Federal government, all service except military with FCIC.

ETHEL JUNE WILLIAMS, district director with the Indianapolis FOO, retired in September with more than 21 years of service with FCIC.

EUGENE F. WITTIG, assistant director of the Spokane FOO, retired in November after 40 years with FCIC. □

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Winter flooding in Mississippi. Photograph by USDA Soil Conservation Service.

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Fosse Named New FCIC Manager

E. Ray Fosse, newly appointed by Secretary of Agriculture Richard Lyng to the position of Manager of the Federal Crop Insurance Corporation (FCIC), has represented interests of the crop insurance industry on the FCIC Board of Directors since 1981.

For 12 years Fosse was Executive Secretary and Manager of the Crop Hail Insurance Actuarial Association (CHIAA). Before that he served 16 years as the Manager of the Agricultural Division of Continental National American Group in Chicago.

Fosse is a native of Illinois and was graduated from the University of Illinois College of Agriculture. His family owned a livestock farm in Marion, Ill., where Fosse currently makes his home.

He was a member of the National Crop Insurance Council. His service was recognized in 1979 by the Independent Farm Insurance Agents of Illinois.

Fosse replaces Merritt W. Sprague, who announced his intention to resign as FCIC Manager in a statement prepared for the April meeting of the FCIC Board of Directors

Sprague cited his reasons as "personal demands and the need to direct my attention to my farming

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New Potato Policy Option Insures Quality

The Federal Crop Insurance Corporation (FCIC) has developed a quality option for its potato policy that should help to satisfy the divergent market demands of potato growers.

Potato growers will be able to select crop insurance on field production or marketing quality or both, according to FCIC Deputy Manager Edward D. Hews, a former potato grower from Aroostook County, Maine.

"The changes in the new policy are intended to address the changing agricultural patterns and technology now practiced by American potato growers," Hews said.

E. Ray Fosse, new Manager of the Federal Crop Insurance Corporation.

"Past policies had quality and marketability adjustments that reduced production values," he said. "They lowered the hundredweight guarantee that a producer could expect from the potato policy."

The new policy includes the following features:

- A basic policy, which offers a production guarantee in hundredweight without regard to the quality of the potatoes. The 1986 yield guarantee will be set up from records of previous yields on the unit involved in the contract.
- A seed-potato option, available in all of the fall seed-producing states for the 1986 crop year. A grower with three years of continuous seed production is eligible for a loss payment of a dollar a hundredweight times the production guarantee in the event seed potatoes are rejected by the State certified and foundation seed inspection regulations for causes beyond producer control.
- A quality option, guaranteeing both processing and fresh-market potatoes of No. 2 grade

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Successful Businesses

It is well established in economic theory that producers, both industrial and agricultural, encounter a great variety of costs in producing a marketable product.

There are those who produce for the market at costs that permit a profit.

There are those who can barely produce at costs low enough to sell in the market. These are known as marginal producers.

There are others—submarginal producers—whose production costs exceed market prices. These producers ultimately have to liquidate and quit the business.

We are familiar with the constant failure of commercial firms in almost every business. There are those who make profits, and there are those who try and then go out of business.

Insuring the Efficient Producer

It would be an unsound insurance practice to insure any of these producers at the average of their production costs, because the insurance organization would be pay ing losses frequently to the submarginal producers.

An insurance practice based on averages would give the inefficient producer a higher coverage than he or she would have if coverage was based on actuai costs. The key factor is the farmer's ability to produce high yields relative to investment costs.

It is necessary to think in terms of production costs per bushel or pound rather than production costs per acre, which is the usual concept.

The production costs per acre can be divided by the yield (in bushels) produced per acre to give the value for production costs per bushel.

The producer with lower costs per bushel is not always the one who makes the lower investment per acre. If a producer uses more fertilizer, more insecticide, better seed, and better machinery, he or she may have higher costs per acre; but because yield is improved, he or she may have lower costs per bushel than the farmer with a lower investment per acre.

If a standard cost per acre is used to determine guarantee, then the same coverage may be given to two producers with the same costs per acre—one an inefficient farmer who minimizes costs per acre and the other an efficient producer who makes a higher investment to get a consistently improved yield.

Nonetheless, the chances of loss for the insurance company are much higher with the inefficient producer than with the efficient one.

This discussion points out the fallacy of using a standard cost per acre to determine coverage.

Yield Insurance

At the time the 1980 legislation for the Federal Crop Insurance Corporation (FCIC) was passed, a number of persons were advocating that crop insurance be based on the individual farm's productivity, as measured by its average yield.

Congress directed FCIC to follow this concept of yield insurance rather than investment insurance. We use that basis now in our Actual Production History (APH) program.

The approach of our FCIC system to insure production has many advantages.

It has made us extremely conscious of yields, both in our actuarial work and among our field staff charged with program administration.

The yield data that are available enter into the determination of the individual coverages.

In the APH program coverages are distinguished among areas by the productivity of the land and not by differences in production costs.

Production Loans

Regardless of whether a crop production loan is government-sponsored or -guaranteed or originates with a private agricultural lender, the use of a crop insurance option increases the likelihood of the loan being paid back.

It is to the advantage of the lender to require that the collateral—the expected yield—be insured, thereby guaranteeing the loan.

It is to the advantage of the farmer to require that he or she insure crop production when taking out an operating loan so that, in the event of a production loss, the insured is not forced to choose between repaying the loan out of other resources or going out of business.

It has long been a practice to insure oneself against risks, whether they be fire in the home, accident in the car, or death of the family's major income producer.

It just makes good sense to do the same when borrowing against an expected income, thus reducing the risk from exposure of the income to losses due to conditions beyond the control of the insured. □

Comments excerpted from the speech Merritt W. Sprague gave before the Seminar on Mutual Aid Scheme in the Context of Crop Insurance, sponsored by the Asian Productivity Organization, Tokyo, Japan, October, 1985.

Naylor Reflects on Crop Insurance

Frank W. Naylor, Jr., has been ominated to serve as Chairman of e newly created Board of Direc- rs of agricultural banking's Feder- Credit Administration.

Naylor has been serving as Board hairman for the Federal Crop In- rance Corporation (FCIC) through s position as the Agriculture epartment's Under Secretary for mall Community and Rural De- lopment.

he nomination must be confirmed the Senate.

ter a 17-year association with CIC, including three years as FCIC puty Administrator during the xon administration, Naylor be- ves his major contribution to the op insurance program was provid- g "the stability for the transition," llowing the passage of the 1980 deral Crop Insurance Act, which owed FCIC to develop into "US- A's principle disaster assistance ogram for farmers."

or any business to grow as rapid- as crop insurance was asked to ow in 1980 would have been ex- mely difficult," he said. "Few if y commercial businesses would en try to achieve the goals out- ed in the 1980 Act."

'Overall, I'm impressed by IC's record," Naylor said. "I metimes think that some mem- rs of Congress don't appreciate t how big an undertaking that s, to move from a very limited eration and suddenly say to all employees overnight, 'Change ur mind-set, we're going to be e of the biggest insurance com- nies in the country and we have this work to do.'

's a real credit to FCIC's em- yees that they were able do a y good job making an enormous nsition with limited resources."

flecting on the events leading to pivotal 1980 Act, Naylor said,

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Frank W. Naylor, Jr., has been nominated as a member of the new Farm Credit Administration Board, with the expectation that President Reagan will designate him Chairman after the Senate confirms the appointment. Naylor has been Under Secretary of Agriculture for Small Community and Rural Development since 1981. From 1976 to 1981 he served as Senior Vice President of the 11th Farm Credit District, Sacramento, Cal. In 1973 through 1976 he was Associate Administrator and Administrator of the Farmers Home Administration. From 1969 to 1972 he was Deputy Administrator of the Federal Crop Insurance Corporation. In 1972 through 1973 Naylor served the Veterans Administration as Executive Assistant to the Administrator. He was responsible for developing management alternatives for the delivery of improved medical services and other benefits to veterans. Before 1969 Naylor was Staff Manager for the Metropolitan Life Insurance Company in Kansas City, Mo. He was born in Kansas in 1939 and graduated from the University of Kansas, Lawrence, in 1961. Naylor saw combat duty in Vietnam and holds the Navy Commmendation Medal. He has served as national chairman of the Vietnam Veterans Committee. He has been active in the American Legion and several civic organizations, including the Chamber of Commerce.

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Naylor Reflects on Crop Insurance

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"Keep in mind, FCIC was put out of business in '46 and wasn't revived until '48. It was a very small, restricted operation through the 50's and 60's.

"The program of the late 60's and 70's was still very much a pilot program," he said, "experiencing a lot of difficulties trying to get its rates to accurately reflect risk, still learning a lot about how to write the policies.

"I was fortunate that we ended up turning a corner and having a period of relatively good years when I was with FCIC," Naylor said. "We did a lot of tightening up. We had some professional industry specialists in, and we did a lot to remove adverse-risk problems from what had been the format.

It's a real credit to FCIC's employees that they were able do a very good job making an enormous transition with limited resources.

"At that time we also had a practice, which we stopped," he said, laughing, "of pricing the policies and then making further changes and not going back and pricing them again. That tended to cause some trouble."

Naylor said that as Deputy Administrator in 1969 he was part of the effort that developed the original draft of the Act. "What is not generally known, is that the original version was in draft while Earl Butz was Secretary [1969 to 1976].

"It was then turned over in transition to Bob Bergland [Secretary of *Agriculture from 1977 to 1980*]," Naylor said, "and subsequently modified considerably, but the basic tenets were there. This Administration, in effect, has reaffirmed and implemented the Corporation's new direction.

"The growing understanding within Congress and the farming community that you should treat a crop loss like any other casualty loss, through insurance, is important," he said.

"Emergency crop loans, that type of emergency assistance, have in themselves been a disaster. In many cases, they've done far more harm to the operators than they've helped.

"Possibly the worst aspect of these programs was that they tended to retard a farmer's natural business instinct to protect his crops with insurance.

"I'm not just talking about loans," he said. "I'm also talking about some of these special disaster assistance programs that were rushed through in the old days to take care of damage from a particular storm or a particular weather event.

"A properly developed crop insurance program is a consistant disaster assistance program that allows people to know what to expect," Naylor said. "It is a much better way to insure the farmers' continued ability to operate than to fool around with these other programs that were sporadic, only covered certain crops, and often weren't well targeted.

"Farmers tend to be risk-takers," he said. "One of my bosses used to compare crop insurance for the farmer to a factory. He'd talk about starting at the input side and moving through the plant, which is, of course, the growing season.

"The variables that are on the floor of the plant are so unpredictable as to be beyond the comprehension of anybody in the auto industry or any other manufacturing industry. Those industries have a great deal of control all the way through the manufacturing process.

"But the farmer's control of his product can be totally out of his hands during the growing season. Input costs vary. Weather changes. A farmer can't price his product in relation to input costs. Agricultural products compete in a global food economy.

"I always liked this analogy, because very few people ever relate the variables of farming in a way that the average non-farm person can understand. What kind of risk are you actually taking when you're in the agricultural business?

"Most of us in the urban areas have a very romantic view of farming," Naylor said. "If you talk to people in the city, as I often do, you find that they're one or two generations away from the reality of the farm.

"They've heard stories from the family, and they were on the farms in the summer, and so forth, and they remember the slightly romanticized part of it. They don't remember all the hard work, they don't remember all the storms, they don't remember all the crop failures."

[Most people] in the urban areas have a very romantic view of farming...They don't remember all the hard work, they don't remember all the storms, they don't remember all the crop failures."

Naylor also thinks the banking industry will give crop insurance more attention as time goes on.

"It's important that banks see the value of crop insurance, because

Naylor Reflects on Crop Insurance

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financing is where the casualty risk becomes really important.

"Farmers tend to self-insure when their own money is involved," according to Naylor. "When they borrow money, they could in effect take a double loss. If they borrow money to grow the crop and then lose the crop, not only do they lose the income, but they can also lose their means of production.

"So the merits of crop insurance become more significant. The banking community is increasingly recognizing that crop insurance is essentially the same type of insurance they require from other businesses when they loan them money."

Naylor often hears complaints that FCIC programs are too complex. Although he agrees that they are complicated, he believes that they are necessarily so.

"We need a lot of compliance review because there are so many opportunities for abuse. Producers flat out won't participate in a program if they feel that it is not being adequately safeguarded.

For any business to grow as rapidly as crop insurance was asked to grow in 1980 would have been extremely difficult. Few if any commercial businesses would even try to achieve the goals outlined in the 1980 Act.

"After all, the farmer is paying a good hunk of the premium. If the program is subject to misuse, it is the farmer who pays the biggest price on that, and they're not going to tolerate abuses for long."

Naylor named several priorities for stabilizing the crop insurance program and developing the "ultimate widespread use of this product."

"I think you've got to build producer confidence and the attractiveness of the product, while staying within the requirements of being financially sound," he said. "In my view, that involves providing a product that reflects the abilities of the producer, as quickly as possible.

"County averages, by the very nature of the way they were set up," Naylor said, "tended to cause adverse selectivity, create losses, and keep better producers from wanting to have anything to do with crop insurance.

"Actual Production History, when fully in place and when all the bugs are worked out," he said, "will stop those tendencies. The higher-yield guarantees under APH are clearly more attractive to the professional, high-quality operator.

"It also tends to discourages abuse by someone who may not use the best farming practices and might, as a result, misuse the insurance contract.

"As with any product, crop insurance will never be universally used," he said. "There will always be farmers who elect to self-insure some of the risk.

But, that's the free enterprise system. Producers have to look at their own financial condition and determine whether or not they are prepared to take the risk to self-insure."

As to the future, Naylor believes that by 1991 the reinsured companies will have the capability of assuming the full measure of the risk inherent in the crop insurance program. This reflects the position stated in the Administration's proposed FY 1987 budget for FCIC.

"The insurance industry is going through a real weeding out, in the broad sense of casualty risk. But it's possible. It will require the reinsured companies to do some of their own homework in terms of actuarial assessments and risk-taking.

"Developing the capacity to cope with catastrophic risk is still a challenge," Naylor said. "It will take some effort on the part of the industry to see and develop that capacity.

We need a lot of compliance review because there are so many opportunities for abuse. Producers flat out won't participate in a program if they feel that it is not being adequately safeguarded.

"Crop-hail has always represented a very small percentage of the insurance industry," he said. "That's been a part of their problem over the years. There are a lot of Mom & Pop companies that really haven't had a major piece of the industry and therefore a major impact.

"The bigger insurance companies must be willing to step in and assume higher-risk areas. The capability is there, but they have to commit to getting the job done."

Naylor thinks that FCIC can help. "The industry has organizations, technical and otherwise, capable of taking on these responsibilities.

"We can encourage and develop the kind of supporting information that will make sure they can do their job and persuade them to take it on. Actuarial information and other kinds—definitions of what the problems are, what works, what doesn't work." □

Personnel Corner

OPM Implements New RIF Regulations

By Robert Langan

Chief, Washington Operations Branch, Personnel Division

Highly controversial and long-delayed revisions of the Reduction-In-Force (RIF) regulations went into effect on February 3, 1986.

These revisions were born out of the Office of Personnel Management's (OPM) frustration in conducting its own RIF within the parameters of the previous regulations.

FCIC is not planning any RIF's this fiscal year, but we thought this information may be of interest to you.

Some of the more significant changes are:

- Competitive area: The competitive area of a RIF is outlined by geographic and organizational boundaries. The organization limits of a competitive area are now defined as "any equivalent major subdivision of an agency, or field activity under separate administration." The definition of a geographic boundary has not been changed.

- OPM prior approval is now required if competitive areas are changed less than 90 days before a RIF.

- Credit for Performance: Additional service credit for performance will be averaged from the employee's last three annual performance ratings, received during the three-year period before the date that a specific RIF notice is issued.

  Twenty (20) years additional service will be given for each "outstanding" rating, 16 years for each "exceeds fully successful" rating, and 12 years for each "fully successful" rating.

  Credit is awarded for official annual ratings only. Special or interim ratings are not to be used.

  If an employee does not have three annual ratings during the previous three years, they will receive a presumed rating(s) of "fully successful" to bring the number of ratings up to three. The average will be "rounded up" to the next whole number.

  The former rules gave employees four additional years of service credit for an "outstanding" rating and two additional years of service credit for an "exceeds fully success ful" rating based on the last official performance rating.

- Assignment Rights:
  Bump - The new regulations limit the **bump** in terms of grade, occupation, and performance.

  A **bump** still refers to displacement of another employee in a lower subgroup, but it is now limited to a position that is no more than three grades (or grade intervals) lower.

  For instance, a GS-12 professional employee can only **bump** to a GS-11, GS-9, or GS-7 position.

  Retreat - A **retreat** is still defined as displacement of another employee with lower relative standing in the same subgroup, but limits on grade and performance have also been placed on retreats.

  Employees may now "retreat" to their same grade or three grades (or grade intervals) lower.

  Thirty-percent service-connected disabled veterans may "retreat" up to five grades (or grade intervals) lower.

  Additionally, an employee whose performance rating of record is "minimally successful" (level 2) may be assigned through "retreat" only to a position held by another employee with a rating no higher than level 2.

  The former rules had no limit on "retreating" to lower grades and did not allow "retreating" to an employee's current grade.

- Notice Period: A ten-day (versus five-day) time period for the specific RIF notice is now required.

The use of these new regulations is mandatory on all RIF actions that were not underway by July 3, 1985. OPM has yet to issue implementing guidance and we expect these regulations to be further clarified as time passes. □

What are your personnel questions? Please write or phone Peggy Adams, Room 4072-S, Washington, D. C., FTS 382-9822, or use Telemail mailbox MFORGASH. Your questions on personnel matters may reflect information needs for the agency. They can help us develop topics for future "Personnel Corner" columns.

Date Change for Compensation

The Master Marketing agency responsible for servicing a policy on the regular sales closing date is entitled to any compensation, according to the 1986 Agency Sales and Service contract, finalized in January after the **Crop Insurance Update** went to press. The **Update** used an incorrect date in its earlier report. □

Eddie Hews Acting Manager

Edward D. Hews, Deputy Manager of the Federal Crop Insurance Corporation since March 1983, served as acting Manager of the Corporation from the time Merritt W. Sprague resigned as FCIC Manager on April 27 until E. Ray Fosse was appointed by Secretary of Agriculture Richard Lyng.

Hews chaired the May 8 and 9 Kansas City meeting of the FCIC Board of Directors, where the Board decided Corporation policies on units and cancellation.

The Board decided to add a surcharge to the premium for unit divisions, starting with the 1988 crop year.

The surcharge will be calculated from available actuarial information as a percentage of the premium for the natural unit. The natural unit is defined as the land owned by one person in a county and farmed by that one person.

The Board also passed an interim rule to make an alternative insurance offer to policyholders of 1987 wheat and small-grain crops who face cancellation if they cannot supply 1985 records by the fall sales closing date.

Policy language will subsequently be changed to provide this alternative insurance offer for all crops.

Hews came to FCIC from a position as Deputy Administrator for Program Planning and Development with the Agricultural Stabilization and Conservation Service (ASCS).

While with ASCS Hews served a variety of managerial positions, including Executive Assistant to the Administrator, Deputy Administrator for State and County Operations, and Director of Administrative Services Division.

Hews was Acting Administrator of ASCS during the transition period in 1981.

He was Chairman of the Aroostook County, Maine, ASC Committee from 1957 to 1969 and raised potatoes, sugar beets, and barley from 1943 to 1971.

Hews was named Outstanding Young Farmer by the U. S. Chamber of Commerce in Maine in 1957 and was presented USDA's Outstanding Accomplishment award for leadership in his role with ASCS in Aroostook County. □

Edward D. Hews, Acting Manager of the Federal Crop Insurance Corporation.

Fosse Named New Manager

Continued from page one

operations," and said that he would have a "continuing association" with FCIC.

In the statement, he said, "It is a matter of great pride that we have worked together to make the Crop Insurance program a major element of the current risk management system for agricultural producers."

Sprague came to FCIC in 1982 from the position of Deputy Administrator for Commodity Operations, ASCS.

He is now at the 2,000-acre Sprague Farms, Inc., in Pike County, Illinois, which produces corn, soybeans, wheat, and 5,000 hogs annually.

The summer issue of the **Update** will feature information on the new manager. □

New Potato Policy Option

Continued from page one

or better. The option insures a percentage of the marketable potatoes in a unit, based on marketing records from the past four years or the county average, in the absence of records.

The basic contract and the two options will carry separate premiums.

The quality option is experimental and will not be available to all potato growers in 1986. It is available in a total of 109 counties in Colorado, Connecticut, Delaware, Idaho, Maine, Maryland, Massachusetts, Nebraska, New Jersey, New York, North Dakota, Oregon, Pennsylvania, Rhode Island, Utah, and Washington.

"The grower can evaluate for himself the importance of the causes of loss—in production, in market quality factors, or in seed quality factors—against the risks perceived," Hews said.

"Because production costs in the potato industry today are so high and potato producers throughout the country are having difficulty maintaining proper cash flow," he said, "we anticipate a substantial increase in sales volume in the 1986 season and beyond." □

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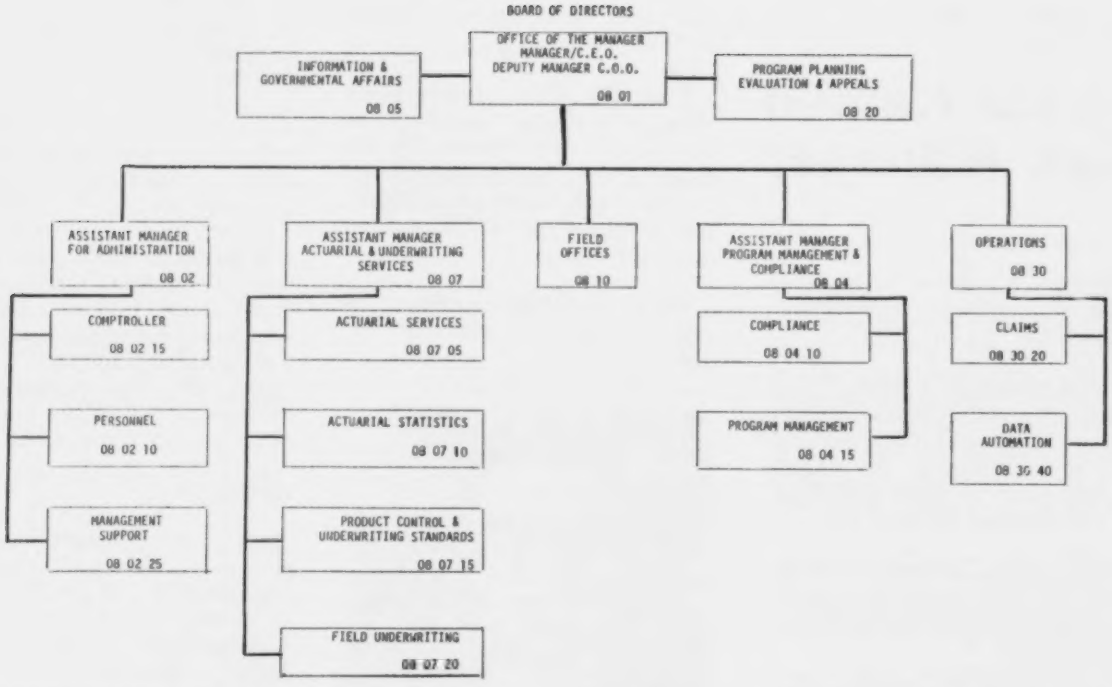

Part of the reorganization of the Federal Crop Insurance Corporation (FCIC), announced March 4, has been implemented. When it is completed, FCIC's organization will follow the plan outlined in this chart. The Congressional & Public Affairs Division, renamed the Information & Governmental Affairs Division, and the Strategic Planning & Evaluation Division, renamed the Program Planning, Evaluation & Appeals Division, report to the Office of the Manager. A new Assistant Manager of Program Management & Compliance will head up two nearly created divisions, Compliance and Program Management. The Compliance Division will be composed, in part, of the former Marketing and Reinsurance Divisions. A new Assistant Manager of Actuarial & Underwriting Services will assume control of the old Actuarial Division, and the former Actuarial branches will be upgraded to divisions. Parts of the former Program Division will be placed in the Product Control & Underwriting Standards Division. The newly created Field Underwriting Division will oversee the Field Actuarial Offices, some of which are being upgraded to Field Underwriting Offices.

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Crop Insurance Update

United States
Department of Agriculture

Federal Crop
Insurance Corporation

Autumn 1986

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Participation Rates Better Than Previously Thought

The Federal Crop Insurance Corporation (FCIC) has developed more accurate methods for determining how successfully the crop insurance industry is enrolling American farmers in risk management programs.

In 1985 about 47.1 percent of potential insurable acres were insured through FCIC, the multiple-peril crop insurance (MPCI) program, or private crop-hail coverage, according to a report from the Program Planning, Evaluation & Appeals Division that was developed under the direction of Director C. (Pat) Henninger.

The 47.1 percent contrasts with the estimated 35 percent that had previously been cited for the same FCIC/MPCI/crop-hail coverage.

The changes in the figures come from new criteria added to those already used to adjust the number of potential acres downward to a figure that more realistically reflects base acreage. The criteria include:

- Uninsurable uses made of crops, such as grazing, silage, hay, double-cropping.
- Small farm operations, with less than $10,000 gross in sales.
- Areas and crops where insurance is not available; this is particularly true for hay and some specialty crops.

The Program Planning report also outlined factors that influence potential acres but were not used to make adjustments because no statistics were available.

These factors include:

- Farms that commingle livestock feeding operations with grain production.

Continued from page ten

Swampbusting and Sodbusting Programs Save Soil and Water

By Price Grisham

Have you heard that the farmers' involvement in the new sodbuster program is HEL?

Don't be confused or offended at the language; the Food Security Act of 1985 uses it to define provisions for compliance.

Despite the hip-sounding name (a contemporary of Ghostbusters at the movies or price-busters at the supermarket), the new Sodbuster program and its sidekick, Swampbuster, have serious intentions for far-reaching results.

Their provisions are that, after December 23, 1985, any person who brings into production a field that is predominately highly erodible land (HEL) or who converts wetland to the production of an agricultural commodity cannot participate in any programs of the U. S. Department of Agriculture (USDA).

"Any program" includes insurance coverage that the Federal Crop Insurance Corporation (FCIC) provides through Master Marketers (MM) or reinsures for the Multiple-Peril Crop Insurance (MPCI) companies.

The programs that these producers may become ineligible for include:

- Commodity price supports or production adjustment payments from the Agricultural Stabilization and Conservation Service (ASCS);
- Farm storage facility loans;
- Disaster payments;
- Ownership or operating loans from the Farmers Home Administration;
- Storage payment of Commodity Credit Corporation (CCC) grain;

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Being Businesslike about the Book of Business

Budgetary Restraints

This administration is proposing legislation that will change some of the methods that we have used since 1938 to deliver the crop insurance program.

I'm going to be very candid about it. Budget restraints put on by Gramm-Rudman, by this administration, by management of Federal Crop Insurance Corporation are going to dictate something different in the future.

The management of the Corporation has decided that we cannot be a productive entity in a world that is collapsing around us unless we take an aggressive stand on how we can correct our destiny.

One area of correction is legislation; more importantly, the prime area is good management efficiencies.

Now, that involves both you and me. It involves the MPCI companies; it involves Congress; it involves the farmers, because we have to put ourselves in an actuarial position that sustains the Corporation without millions of dollars of help from Congress.

It probably means increases in rates to producers.

We are also proposing new legislation that will effectively move us away from paying subsidy payments and administration and operating (A & O) expenses within the next four years.

The trick is to move comfortably into the real world of insurance costs without losing business and yet offer protection that producers need.

The Delivery Systems

Therefore, we are going to mention today some changes in the Sales and Service Agreement that would not appreciably change our service to the producer. There are many approaches to this very sensitive and complicated problem.

If we don't look at all of the avenues of approach together, we will probably continue to have glitches and errors in our delivery system.

I am the first to admit that I have made errors in judgment since I have been with the Corporation over the last 3-1/2 to 4 years.

At times I don't always have easy decisions to make; and after I make them, I have to stand with them. And sometimes I have to say, "Well, I goofed! Why don't I admit it?" and I will.

But there are others within the delivery system that have also made some errors; so we have to admit our errors and correct those, and move forward.

Errors and Omissions Insurance

We looked at Errors and Omissions (E & O) insurance, but we had to change our position. We found that carriers around the country were very, very selective and very gun-shy, if I may use that term, in relation to writing E & O coverage for agents in the field.

It happened with both sides of the delivery system; this is not just an issue for Master Marketing.

So we did not do anything in regard to the provision requiring E & O insurance, nor will we in 1987.

APH Is Not a Bad Word

I know the most controversial issue for awhile has been APH.

I always admit that we have a very heavy paper operation going in APH. It is more than we should have had, but APH is not a bad word.

Maybe we can smooth out the paper flow and bring this program into the real world of tomorrow, because it really helps farmers. As farmers—and many of you are farmers—if you can get a better offer because you can bring in your records, you ought to have that opportunity.

Computer System

One issue that I would like to discuss with you now is computers.

We do find that computers are very helpful to a lot of people and a lot of operations around the country.

So we are going to have language in our 1987 agreement that will permit the Corporation, as we become ready, to work with Sales and Service contractors in electronic transfer of data to the Corporation or its designated service points.

We're willing to offer assistance...in developing the software packages, in

Continued on page eight

These excerpts are from the speech that the Federal Crop Insurance Corporation's (FCIC) Deputy Manager Edward D. Hews gave to Master Marketers at their yearly meeting with FCIC on the Agency Sales and Service contracts; the meeting was held in Kansas City on June 12 and 13, 1986.

Fosse Hopes to Improve Insurance Participation

Ray Fosse is soft-spoken, reserved, gentlemanly. He smiles easily but does not joke.

He is the new Manager of the Federal Crop Insurance Corporation (FCIC). As the Manager he is in charge of a government agency taking in over 440 million dollars of premium and providing over 8 billion dollars of insurance protection to American farmers.

Fosse perceives that the challenge to the FCIC Manager is to use the Corporation's considerable resources to support the private crop insurance industry in "increasing participation rates in some kind of risk management program, and in that way getting the Federal government out of providing disaster relief."

The Private Crop Insurance Industry

"The reinsured companies are interested in growth in the multiple-peril industry," Fosse said. "They have the will to carry out the crop insurance business, with or without the Federal presence."

Fosse speaks from 35 years' experience in the private hail-fire crop insurance industry, including the last 5 years as a member of the FCIC Board of Directors.

"That spot on the Board, as provided by the Act of 1980," Fosse said, "was for 'one person experienced in crop insurance.' It is **not** a position representing the industry, as is too often remarked."

As a member of the Reagan Administration, he applauds the growing industry involvement in carrying out the goals established in the Federal Crop Insurance Act of 1980.

Fosse sees the latest FCIC reorganization as an outgrowth of this legislation, which minimizes FCIC's role as a direct insurance provider and emphasizes the Federal role as a reinsurer to the private crop insurance industry.

"But the reinsurer does not just issue a blank check," he said. "As long as there is any government money involved in the program, then there will have to be government oversight," such as the new compliance function.

"We have to be sure that the money is spent in compliance with the law at that time," he said. "As long as the government is in the reinsurance business, whoever makes the rates—whether it is a Federal corporation or a private insurance company—will be subject to review, you can be sure of that."

Fosse added, "The success of the changes from the '80 Act has proven the wisdom of using the present delivery systems to extend the availability of crop insurance.

"Of course, the private industry also includes the Master Marketers," he said. "Even though the risk-bearer in that delivery system is a 'company' called FCIC, the Master Marketers and their agents are private contractors. We have recently indicated to them our intentions to be even-handed about the two systems.

"Under existing law, their future depends on their contribution toward our participation goals.

"We intend to professionalize, to modernize, and to economize—with such things as electronic transmission of statistics and information, the requirement that their agents be licensed by the states, and some minimum premium volume that justifies both their and our costs of doing business."

The Insurance Industry's Hard Times

But Fosse sees the government's relationship to private industry as only one part of the effects of the marketplace on the industry.

"The insurance industry as a whole, and not just crop insurance, has recently had very bad loss experience," he said, "although most

Continued on page six

E. Ray Fosse, Manager of the Federal Crop Insurance Corporation.

PERSONNEL CORNER

Improving Personnel Management in the Corporation

When you're on the job, does it ever feel like you're in a car with square wheels—lurching painfully through each movement forward?

In a recent interview, Glen V. Bjorklund, Personnel Officer for the Federal Crop Insurance Corporation (FCIC), used the analogy to describe the process of improving FCIC's human resources management.

"FCIC line managers and supervisors in general need to perform better in their roles as people managers," Bjorklund said, "and need to be held more accountable for such performance.

"This is not just my opinion or finding—it is almost a direct quote from the 1983 Personnel Management Evaluation (PME) report by the U. S. Department of Agriculture on FCIC's personnel management program.

"And, unfortunately, the condition still exists to a large extent today."

Bjorklund said that the FCIC Personnel Division resumed the onsite PME's of field offices during this fiscal year to find out the extent of this personnel management problem in the Corporation.

"What we have found to date is not surprising and not unique within the Federal government—the common belief that the management of personnel programs and the individuals affected by them is largely or exclusively the business and responsibility of the personnel staff and officials."

Bjorklund takes exception with this belief, stating, "All the literature on personnel practices, the laws and regulations as well as observations and theories for both the public and private sectors, make it clear that personnel management is not the job of the personnel office; it is the job of all managers and supervisors."

Bjorklund says the Federal laws and regulations define the functions of personnel officers and staffs as those of advisors, administrators, and technicians.

Bjorklund said that FCIC has some "very good" personnel managers but they are "really few and far between."

"That's not to say that many of the others in management positions can't become good managers of people," he said. "But I believe that will only occur when there is some emphasis placed on it by their superiors."

Examples of support that Bjorklund said senior management could offer for personnel management efforts include selecting managers rather than technicians for such positions in the first place, encouraging more managerial training, and accurately assessing the personnel management of these managers under the merit pay system.

"We seem to place too much emphasis on program initiatives," Bjorklund said, "with little thought of how this will be achieved through the efforts of our employees."

Bjorklund said the PME's are an effort to gauge the level of emphasis being placed on personnel management.

"We're trying to gauge the level of knowledge of personnel procedures and the quality of the programs, not only from the perspective of the managers and supervisors in those offices, but also from the insights and feelings of employees," he said.

Glen V. Bjorklund, FCIC's Personnel Officer.

What You Don't Know Can't Help You

Bjorklund said, "The level of knowledge that managers, supervisors, and individual employees have

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Improving Personnel Management in the Corporation

Continued from page four

about personnel matters and issues must be upgraded—knowledge of their personnel programs, their rights, what they should expect from us as managers and supervisors, what programs are available to them, how they are promoted, how they are graded, employee development opportunities, advancement opportunities.

"One thing that we have found in our PME's," Bjorklund said, "is that, even when we issue procedures, the managers and supervisors rarely read them; and even when we make an all-employee distribution—when a change is expected to impact on individual employees—we find that they don't read them either."

Bjorklund said that the Personnel Division's ability to provide good personnel service is hampered by managers' and supervisors' lack of understanding of how to handle personnel matters and the level of effort they put into such work.

"The more work a manager puts in on the front end," he said, "describing a job or organizational change, thinking about how it will fit into their organization, how we should go about recruiting individuals for that position, what kinds of skills and knowledges are necessary, the better it works out.

"Expecting the Personnel Division to assume the accountabilities that are rightfully those of line supervisors and managers," Bjorklund said, "is an abdication of a manager's responsibility. Yet it occurs too often."

Technical Assistance

Bjorklund said that the Personnel Division spends a large amount of its time in what he described as "technical assistance."

"The division's internal work reporting system counts technical assistance contacts," Bjorklund said. "These can be anything from you stopping me in the hall asking how high does my grade go, to several hours on the phone with a manager, giving him or her guidance and assistance on how to handle a problem employee.

"Last month we had over 1800 technical assistance contacts; our average is running about 1400.

"With 20 workdays in a month," he said, "that's about 70 technical contacts a day for a staff of 21 people, including clerical employees, between here and Kansas City.

"This is just a guess, but I would say 50 to 60 percent of the phone calls are covered in procedure.

"I really wish people would look at the procedure. Most of the answers are there."

Performance Elements

Bjorklund said that one accomplishment he is particularly proud of is the development, with a great deal of help from a group of managers, of standardized performance elements for FCIC managers and supervisors.

"I can't emphasize enough that, in what has been developed, the personnel management responsibilities of managers and supervisors were made a critical element in their performance standards," Bjorklund said.

"However, the results of the PMEs have documented that managers are not always being held accountable in this area.

"The kinds of problems we see and the kinds of questions we receive show me that many supervisors are not taking their personnel management responsibilities seriously," he said.

"Managers throughout FCIC must be willing to sit down and say to subordinate personnel, 'You're just not cutting it in this area, you need to improve.'

"If accurate ratings are given for the performance of managerial duties, then it's going to trickle down through the ranks."

Employee Orientation

Bjorklund said new employee orientation was one need mentioned in the 1983 report.

"I think it's an area where my office has fallen down," Bjorklund said, "in Washington, particularly, and also in assisting the Field Offices in providing such orientation."

He said that the Personnel Division was in the process of developing a comprehensive information packet for distribution to all locations.

"If we give the field offices a good outline and a good information package, they can sit down with each new employee and go over the materials—require them to read it, give them time to read it, and then have them ask the questions," he said.

"Questions like how do I get paid; when do I get paid; how do I get promoted; how far does my grade go in this job; if I want another job, how do I go about getting it within this agency; what are my benefits?"

Training

With the support of top management the Personnel Division has developed plans for training FCIC's managers and supervisors in employee relations and development.

"It'll be a refresher," he said, "tailored toward FCIC. It will cover what we expect of them in employee

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Fosse Hopes to Improve Insurance Participation

Continued from page three

of us have heard primarily about extraordinary charges for malpractice or liability coverage.

"They, like FCIC, have had to raise rates and are getting unfavorable reactions from the general public for doing so," Fosse said.

"These things go in cycles. The most recent cycle was aggravated by significantly lower interest rates, which provided less investment income," he said.

MARKETING DISPLAYS THE PAST—*The economic hardships of farmers during the "Agricultural 30's," when President Franklin D. Roosevelt signed the original Federal Crop Insurance Act, was the theme of the display created by FCIC's Graphics Section for the Master Marketing meeting in Kansas City June 12 and 13. Phototypsetting Technicians Jan Riley and Karen Grissom and Information Assistant Brad Hensley developed the display under the guidance of Supervisory Visual Information Specialist Peggy Parsons.—Photo by Brad Hensley. Story by Jo Sutter, Crop Insurance Specialist, Marketing Division.*

"Contrary to most impressions, good investment income for the insurance industry is an asset for all of us who must have insurance.

"Investment income allows industry to build surplus, and without surplus insurance companies cannot accept risk," Fosse said. "Strong companies will show $1.00 surplus for each $3.00 of premium income; some even show a 1-to-1 ratio.

"State regulators monitor these ratios as one barometer of financial vitality."

Fosse observed, "Crop insurance is a small segment of the insurance industry, only 1 or 2 percent of the property and casualty insurance industry as a whole.

"It will remain small," he said, "because agriculture is essentially static. Industrial growth expanded greatly after World War II, but the amount of farming being done stayed about the same; in fact, there are fewer farmers now than ever.

"We can expect the crop insurance potential to stay about the same. Actually, the potential may even decline, depending on the effectiveness of the 1985 Farm Bill to retire acreage in the 'fragile' category."

Participation Rates

Fosse recognizes that measuring real gains in participation depends first on a clear definition of potentially insurable acres.

"A lot of acreage that is called farm land should not be regarded as a potential market for crop insurance," Fosse said. "The report from the Program Planning Division shows that.

"Grain production incidental to livestock operations," he said, "is not really a prospect for crop insurance, since such diversification is inherently risk-reducing.

"Nor can we provide any meaningful service to small and part-time farmers, or farmers who, for one reason or another, aren't farming at all right now.

"We don't have access to those producers who won't participate in any government program. And we have been told not to violate the rules of actuarial common sense, such as offering coverage in known flood areas.

"These are just some of the parameters that were used in the Program Planning report to define the outer limits of our market," he said.

But even after potential insurable acres is defined, the Corporation will concern itself with the availability of risk management tools for agricultural producers, according to Fosse.

"I've made courtesy calls on legislators," Fosse said. "Participation rates seem to be their number-one concern. So it will be important to us.

"After all, they have worked hard to write legislation that addresses a problem," he said. "When it isn't working as they anticipated, they want to know why."

Why Buy Crop Insurance?

Fosse attributed the growth in participation rates to the changes in the conditions of agriculture since World War II.

"In the past the farmer used less cash; labor was from the family; the farmer paid less in fertilizer, seed, other expenses," Fosse said.

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Fosse Hopes to Improve Insurance Participation

Continued from page six

"If the farmer sustained a loss, he would do a little belt-tightening and he could carry over into the next crop year," he said.

"Thirty years ago very few farmers knew what we now mean by the term 'cash flow.'

"In recent times there has been a trend away from diversification and toward the cash crop as the major source of farm income," Fosse said.

"Because farming became a more cash-dependent industry, the use of crop insurance changed, as did the use of credit to finance production.

"When the cash ecomony began to dominate production decisions," he said, "many farmers could less easily afford to absorb a loss."

"Some people look askance at a farmer who, having had a serious uninsured loss one year, buys crop insurance the next year," Fosse said.

"But, even if he has only had a small loss, he may be out of cash reserves, and he may not be able to afford to suffer a second loss.

"It's just prudent, good business to take the precaution of buying insurance," he said. "This takes financial management out of the realm of out-and-out gambling, of playing the odds."

But Fosse also said that not all farmers need crop insurance.

"Some farmers are in a position to self-insure," Fosse said, and defined a good candidate for self-insurance as a debt-free farmer with diversified enterprises in a low-risk area.

"I also don't think that if a farmer is buying hail insurance we should assume that he ought to have multiple-peril insurance too," he said. "In many cases hail and fire insurance may be all he needs."

Changes to Come

Although he pulled no punches in taking policy positions, Fosse also indicated that he came to the Manager's position without a predetermined management program.

"My first priority," he said, "is to develop an agenda and establish that program—with information gathered on the job."

However, Fosse described two "areas of emphasis that everyone shares" as adequate premium rates and simplification of procedures.

"Don Armstrong and his crew have a monumental job to do, one that carries significant weight. They are making real progress in developing standardized rates and a standardized rating method for Corporation programs, but it will take time," he said.

"Some simplification of procedures, forms, and so forth," Fosse also said, "will come as we accumulate experience. But the MPCI business will always be complex in comparison with the private hail business."

Fosse's reference to the private hail business comes from his extensive knowledge of it, gathered during what he describes as a "satisfying career experience."

Fosse started his insurance career as a part-time loss adjuster for a hail company during the summer while he was a vo-ag teacher in Illinois. He received a Bachelor of Science degree in Agricultural Education from the University of Illinois.

When he was offered a full-time position with the company in February 1952, he left the education profession for good.

He has worked in sales, supervision of loss adjusters, marketing, management, and actuarial programs.

Fosse was Executive Secretary of the Crop Hail Insurance Actuarial Association (CHIAA) from 1967 to 1983. During that time he served as technical consultant for the 1980 revision of the Crop Insurance Act.

He first came to FCIC as a Board member appointed in September 1981 and is enthusiastic in his vision of the future of crop insurance.

Since starting as FCIC's manager, Fosse has moved to Arlington, Virginia, with his wife Lloyd Elisabeth. ■

Personnel Management

Continued from page five

relations and development, how to deal with problem employees, how to avoid complaints by taking steps to reduce the chance of their occurence."

Bjorklund said the in-house training would be given this summer by members of FCIC's personnel staff, possibly supplemented by contractors or members of the training center in Kansas City.

Attention

Bjorklund said, "In the final analysis I am not interested in documenting why things aren't better. I'm interested in working with the good people we have in making real improvements.

"We can do much together to improve the management of our employees, if we will only give this responsibility the attention and resources it deserves." ■

Being Businesslike about the Book of Business

Continued from page two

getting the types of documents that are needed and can be easily transmitted.

We think it is important that things happen electronically as we move into the future, as we start to streamline and reduce this Corporation to the size that matches the book of business that we are trying to service.

Gary Schwartz and his shop are now into the development of the operational phase of the office automation program. There has been a lot of talk about this, a lot of misunderstanding, and a lot of bad rumors.

The program is basically set up to assist the Corporation in a smoother and more effective and efficient operation for the book of business that we can anticipate for the future.

OAP, in a nutshell, is decentralization of some of our data processing, using the IBM System 36 computer that is in an ASCS office.

We will have control of our data. We could do a policy from the beginning to the end.

It is not a secret system built to perpetrate anything devious.

It is a management system to do a better job of paper handling. It is a backup, too.

So don't be misled by all the things that you heard about that system, and don't be optimistic that the system is going to be in position next week or next month or even next year.

Prevented Planning

The 1985 Farm Bill, which was signed at the end of the year, said that, if prevented planting is not offered by Federal Crop Insurance Corporation, then the farmer can go to ASCS and pick up a disaster check.

Obviously, the Secretary of Agriculture didn't like that, so we initiated a prevented planting option to our regular policy.

The problem was that everyone was a little bit ill-informed on the policy, because it was developed so late.

We had some challenges in South Dakota, because they indicated that producers were not aware of the program. We did a thorough check. A major storm occurred there, so we extended the sales closing date to April 22nd.

Now we can say to our critics on Capital Hill, there was a window; farmers were aware of it. Unfortunately, only fourteen in South Dakota chose to take the option.

The answer is, we offered, folks. Because producers do not buy a crop insurance policy, or an option, or prevented planting is not a reason for that producer to come to USDA and ask for a check because he has lost his crop, or couldn't plant his crop.

All I'm saying is that you're going to see tougher positions by management to control these policy and program changes.

The Corporation has made too many changes affecting producer policies and left too little time for sales.

After a great deal of discussion, we agree that it will take about a year in advance to initiate changes. We had better not make any changes in the program once we start that process.

We made a commitment to both delivery systems that four months before sales closing, we're going to have everything out there for you to look at and sell.

Book of Business

Former Secretary of Agriculture Earl Butz said there wasn't anything

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FCIC's Deputy Manager Edward D. Hews.

Being Businesslike about the Book of Business

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cynical about profits. You know that is the name of the game, and that is what we are talking about.

We can take a look at what type of business you have to operate to make a profit.

There has got to be some minimum, and we are considering putting a minimum book of business in the '87 Sales and Service agreement. Right now, we are saying 25 agents.

We may say you must have $500,000 minimum business in 1987.

Now, we are looking at that and saying, you know, that is pretty minimal when you talk about servicing that account.

How much money do you need to set up an efficient, effective operation and manage it properly? I'm not sure even a half a million is the right figure. I'll be honest; it should be a million!

We are talking about business, folks! And we want a solid business and a solid operation.

On the other side of the coin, just because we are a government agency, we are obligated to offer the policy all over the country to any farmer that would like one. As a government agency, I suppose we could say, "Well, if it costs you three times as much as anyone else to bring that service down to the farmer, we've done our social service."

That may be true, but I don't think so. I think we need to become more effective and efficient and I think the American public deserves that and I think you deserve that.

So if we have to tighten our belts in becoming effective business people, then I think that you have to look at your business practices and come to that area of responsibility.

We are willing to consider additional compensation for services rendered—administrative services. If we add more to your responsibilities, then we are willing to recognize that it will cost us to do that.

And if that is the case, if we pay you more, then we are going to cut back and let you do more.

We are seriously considering a one-point service operation. If we were to accomplish that, we would have more streamlined communications back and forth between the Master Marketer and the Corporation.

You'd be responsible for your agents. There are a number of efficiencies that could be derived from this in relation to transfers, to accounts, to controls you need over your agents.

Support for the Book of Business

I stood up here a year ago, and in my way tried to give you an enthusiastic speech. I said, you know your destiny is in your hands and I can't control it.

If the book of business shows that you have something to offer the American farmer, we will support that book of business.

We came out at about $115 million book of business at that time on Master Marketers. This year we are projecting for 1986—we haven't got a complete fix on this one—the figure of $88 million.

When business gets low enough, you have to face reality. Once again, the ball is in your court. ■

***BACKED BY BONDS**—The Federal Crop Insurance Corporation was recognized by Secretary of Agriculture Richard Lyng for "exceeding Departmental goals" in the 1986 U. S. Savings Bond Campaign. Special Assistant to the Manager Bill Murphy, who was FCIC's national campaign coordinator, received a Minute Man banner for the agency in a ceremony in the Administration Building's patio in Washington, D. C. Assisting Murphy were Crop Insurance Specialist Garland Westmoreland, who coordinated the Field Operations Offices efforts, and Management Analyst Catherine Hartman, who coordinated Kansas City and the Field Actuarial Offices efforts.*

Participation Rates Better Than Previously Thought

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- Farmers who refuse to participate in any Federal program.
- Acreage in areas that would never be insured, such as those with backwater or extremely high flood water, between dike and river or flood pool.
- Land farmed in violation of the Sodbuster/Swampbuster provisions of the 1985 Farm Bill.
- Farm lands previously farmed but idled for financial reasons.
- The effects of market prices and of other USDA farm programs such as price supports on decisions to farm or to remove acreage from production.

"These factors impacting FCIC potential insurable acres vary year by year," Henninger said.

Adjustment procedures used on data from the National Agricultural Statistics Service (NASS) showed that U. S. farmers harvested over 267 million potentially insurable acres in 1984 and 265 million in 1985.

Farmers insured 115 million acres in 1984 and 125 million acres in 1985 with FCIC, MPCI, or private crop-hail policies.

In 1984 50 million acres were insured or reinsured by FCIC and 65 million were insured by crop-hail companies.

In 1985 59 million acres were insured or reinsured by FCIC and 66 million were insured by crop-hail companies.

The decline in the number of harvested acres and the increase in the number of insured acres account for an increase in participation rate from 1984 to 1985.

FCIC and MPCI covered 18.9 percent of the total insured acreage in 1984 and 22.3 percent in 1985.

"Potential insurable acres has always been a rather nebulous number and has caused a great deal of concern to users," FCIC Manager E. Ray Fosse said.

"Depending upon which statistics are used, the latest figures available, or the use to be made of the statistics," he said, "you can see variations of as much as 18 to 96 million acres (see table).

"Since we use this statistic as a measure of Corporate performance," Fosse said, "and others use it as a yardstick as well, we would do well to use the most nearly accurate figure possible.

"We are pleased to have established some improved guidelines in this area," Fosse said, "and we will continue to refine the process so we can develop even more accurate reports for the future.

"Also, we will continue our efforts to increase participation in the crop insurance program." ■

Variations in the figures for potential insurable acres.

1984 NASS data on principal crops	345 million planted acres
1984 FCIC Data, Previous Criteria	363 million potential acres
1984 FCIC Data, Revised Criteria	267 million adjusted potential acres

Swampbusting and Sodbusting

Continued from page one

- Agricultural conservation program payments; and
- Annual payments from conservation research programs (excluding practice payments).

USDA's Soil Conservation Service (SCS) uses the HEL designation for land with an excessive average annual rate of erosion in relation to the soil loss tolerance level. Any land with this designation is typed as Class IV, VI, VII, and VIII.

SCS will assist producers in determining if their land is highly erodible.

Exemptions provided under the Act include:

- Land cultivated for production in 1981 through 1985;
- Land not cultivated because it was enrolled in a USDA production reduction program, such as Payment-in-Kind;
- Land placed under an alternative and appropriate conservation plan from SCS; and
- Land determined before December 23, 1985, not to be highly erodible.

Sodbusting exemptions are not permanent. After January 1, 1990, or two years after SCS has completed a soil survey for the farm, whichever is later, a producer farming on excepted HEL must be actively applying a conservation plan based on the local SCS technical guide.

A conservation issue of a different nature is addressed with the Swampbusting provisions, which involve converted wetlands.

SCS defines wetland as having a predominance of hydric soils. It is

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Award for Good Training and Supervision

The U. S. Department of Agriculture recognized Bismarck Field Operations Office Director Harold Schonberger for providing "the highest level of policyholder service" to North Dakota farmers while reducing administrative costs to the Federal government by an estimated $441,000 last year.

Work at the Bismarck FOO cost taxpayers $778,925 in 1985, a figure about one-third lower than the national average for that volume of work.

The Bismarck FOO processed 8,763 claims for indemnity payments on 1985 crop losses with a 99 percent accuracy rate. Ninety-seven percent were processed within 9 days.

"The credit goes to training, followed by good supervision," Schonberger said, in explaining his success. He said he had "wonderful" trainers.

"The supervisor works with the loss adjuster until completely satisfied that the adjuster can go on his own," he said.

Schonberger also said that selection of personnel for the various jobs was important. "If you're lucky, only about 40 percent of the people you recruit wind up leaving; there's quite a washout rate."

During the 1950's Schonberger and his wife farmed small grain and livestock—with crop insurance—in the Red River Valley.

He was an FCIC loss adjuster while he was a student at North Dakota State University and went with a private insurance company after being graduated in 1954. Over the years he has worked for FCIC as district, state, and regional director in North Dakota and St. Paul. ■

Harold Schonberger, Director of the Bismarck Field Operations Office and 1986 recipient of the U. S. Department of Agriculture's Superior Service Award.

Swampbusting and Sodbusting Programs Save Soil and Water

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saturated by surface water and is suitable for the support of hydric vegetation.

Converted wetland is wetland that has been drained, dredged, filled, leveled, or otherwise artificially manipulated, after December 23, 1985, to produce a farm commodity.

SCS will make the determination of whether land is wetland or converted wetland. Possible exceptions are wetlands artificially created for livestock watering, fish or rice production, flood control, or irrigation; or wetland on which production becomes possible because of a natural condition, such as drought, without special preparation by the producer.

Insureds covered through MM or MPCI companies will be required to file an annual USDA certification (AD-1026) of the producer's status under the law.

However, because the Act was passed and regulations were filed after 1986 policies went into effect, FCIC will not take action against a producer in violation during 1986 crop year.

ASCS plans to initiate a spotcheck system on 10 to 15 percent of program participation. ■

Call for Personnel Topics

Do you have personnel questions? Would you like to respond to the "Personnel Corner" column in this issue? Please write or phone Peggy Adams, Room 4072-S, Washington, D. C., 20250, FTS 382-9822, or use Telemail mailbox PADAMS/FCIC.

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Drought damage to corn in Georgia, August 1986. USDA photo by June Davidek.